

BENTON HARBOR HOUSING COMMISSION
BENTON HARBOR, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Benton Harbor Housing Commission	County Berrien
Fiscal Year End September 30, 2006	Opinion Date March 9, 2007	Date Audit Report Submitted to State May 12, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Compliance and Internal Controls	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 731 S. Garfield Avenue		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA, PC	
		License Number 11050	

BENTON HARBOR HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

I have audited the accompanying financial statements of the business-type activities of the Benton Harbor Housing Commission, Michigan, a component unit of the City of Benton Harbor, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Benton Harbor Housing Commission, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Benton Harbor Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated March 9, 2007, on my consideration of Benton Harbor Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Benton Harbor Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Benton Harbor Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gary E. Landeth, B.S., P.C.

March 9, 2007

BENTON HARBOR HOUSING COMMISSION
BENTON HARBOR, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2006
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The Benton Harbor Housing Commission, created in 1950, by the City of Benton Harbor provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2006. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Benton Harbor Housing Commission consists of four programs. The first is owned housing, consisting of 276 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 128 qualifying low-income residents for rental housing, and the Housing Commission has begun a HOPE VI program that was approved on July 8, 2004.

Benton Harbor Housing Commission had total revenues of \$4,026,191 that includes \$403,219 in rental payments and \$3,603,273 in federal assistance. Total revenues increased by \$121,649 from the prior year, in part, because of an increase in capital grants by \$448,975 due to an increase in capital projects and the start of the HOPE VI project, which consisted of \$825,626 of the increase. Part of the increase was reduced by not as much received from the capital grant fund compared to the prior year of \$561,050. The remaining difference is from the tenant revenue being reduced by \$186,672 due in large part of the 94 low rent units being demolished at the end of the prior fiscal year.

Total operating expenses were \$3,040,898, that includes \$659,072 in administrative expenses, \$287,787 in utilities, \$553,046 in ordinary maintenance and operation, \$115,962 in general expenses, \$643,870 in housing assistance payments, and \$708,235 in depreciation expense. The operating expenses increased by \$43,108, in part, because of the increase in HAP payments because of issuing Housing Vouchers to those displaced by the demolition of the 94 low rent units.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$10,098,036. The Housing Commission's total net assets increased by \$985,293 from the prior year; the increase is equal to the change in net assets for the year.

Financial Highlights (continued)

Total assets of the Housing Commission were \$10,466,545; this is a net increase of \$994,110 from the prior year in large part because of the HOPE VI capital outlays of \$1,244,794 during the fiscal year. The current assets decreased by \$73,066 in large part because of amount of prepaid expenses decreased by \$51,928.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed Statement of Net Assets show a summary of changes for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Current assets	\$ 548,245	\$ 621,311	\$ (73,066)
Capital assets	<u>9,918,300</u>	<u>8,851,124</u>	<u>1,067,176</u>
Total assets	<u>\$10,466,545</u>	<u>\$9,472,435</u>	<u>\$ 994,110</u>
Current liabilities	\$ 336,218	\$ 313,631	\$ 22,587
Noncurrent liabilities	<u>32,291</u>	<u>46,061</u>	<u>(13,770)</u>
Total liabilities	<u>368,509</u>	<u>359,692</u>	<u>8,817</u>
Net assets:			
Invested in capital assets	9,918,300	8,851,124	1,067,176
Unrestricted	<u>179,736</u>	<u>261,619</u>	<u>(81,883)</u>
Total net assets	<u>10,098,036</u>	<u>9,112,743</u>	<u>985,293</u>
Total liabilities and net assets	<u>\$10,466,545</u>	<u>\$9,472,435</u>	<u>\$ 994,110</u>

Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Housing Commission for the years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 378,115	\$ 541,371	\$ (163,256)
Nondwelling rent	<u>25,104</u>	<u>48,520</u>	<u>(23,416)</u>
Total operating revenues	<u>403,219</u>	<u>589,891</u>	<u>(186,672)</u>
Operating expenses:			
Administration	659,072	734,705	(75,633)
Tenant services	2,928	20,080	(17,152)
Utilities	287,787	335,468	(47,681)
Ordinary maintenance and operation	553,046	543,725	9,321
Protective services	49,427	51,143	(1,716)
General expenses	115,962	178,923	(62,961)
Casualty losses		450	(450)
Extraordinary maintenance	20,571		20,571
Housing assistance payments	643,870	465,852	178,018
Depreciation	<u>708,235</u>	<u>667,444</u>	<u>40,791</u>
Total operating expenses	<u>3,040,898</u>	<u>2,997,790</u>	<u>43,108</u>
Non-operating revenue:			
Interest income	11,426	5,381	6,045
Other income	8,023	6,541	1,482
Fraud recovery	250	1,221	(971)
Capital grants	1,775,412	1,326,437	448,975
Operating grants	<u>1,827,861</u>	<u>1,975,071</u>	<u>(147,210)</u>
Total nonoperating revenue	<u>3,622,972</u>	<u>3,314,651</u>	<u>308,321</u>
Change in Net Assets	<u>\$ 985,293</u>	<u>\$ 906,752</u>	<u>\$ 78,541</u>

Financial Analysis of the Housing Commission (continued)

The overall financial position of the operations of the Benton Harbor Housing Commission, have improved due to a number of reductions.

1. A reduction in maintenance cost for minor maintenance activities specifically discontinued:
 - A. The use of contractors;
 - B. Monitoring the use of materials and supplies; and
 - C. Charge tenants for repairs or replacements that were not normal wear and tear.
2. A reduction in staff, specifically:
 - A. Due to future plans for Asset Management the Maintenance Foreman's position has not been filled;
 - B. The financial analysis position was not filled when vacated. The Director and Deputy Director have assumed the financial management responsibilities; and
 - C. Discontinued the use of outside contractors for the renovation of vacant units and developed an in-house vacant unit task force.
3. Establish appropriate financial management policies and procedures:
 - A. A tighter control over spending has been developed;
 - B. A system has been developed to monitor all payments and balance all check accounts.

HOUSING MANAGEMENT:

- * Assertive efforts are being made to reduce the tenant accounts receivable.
- * Reduction of vacant units and reducing the vacant unit turn around time by implementing improved procedures and practices.

The Housing Commission plans on continuing our renovation projects in fiscal year 2007. We have plans to improve the lighting at the Harbor Towers Development. Additionally we will install new floors in the hallways, improve the security systems, and purchase furniture for the lounge areas. Doors and windows will be installed at the Buss Development along with new siding. The 2007 Capital Funds will be used for the aforementioned improvements.

During the past year we demolished 94 units at the Whitfield I Development in preparation for the construction of 24 family home and 26 one bedroom apartment units.

COMMUNITY CENTER

In addition, a part of the plan for the HOPE VI Project included the renovation of the Benton Harbor Housing Commission Community Center. The Community Center is currently going through a complete overhaul which includes the addition of a gym, several new and remodeled office suites, a new maintenance building, a community center with a stage, a computer learning center and a complete new look to the outside of the building. This newly renovated facility will serve as a combination Neighborhood Networks facility and Teen Center. One of the biggest community needs in this part of Benton Harbor is for an aggressive Teen Center. Coupling this facility with the hub of the Neighborhood Network will get BHHC the maximum value for the dollars it expends. The staff of the Benton Harbor Housing Commission and HOPE VI Project staff will return to occupy the building in Spring/Summer of 2007.

NEW HOME CONSTRUCTION

Construction of 70 three and four bedroom homes (30/3br, 34/4br and 6 stick built homes) began in the latter part of August. Closing ceremony on these homes took place in Lansing, MI in June 2006. The homes are situated predominately in the Southwest section of Benton Harbor. As of the date of this report, a total of 20 homes have been completed at a cost of \$2,358,828. Occupancy is expected to begin around the first and/or second week of December. Applicants are being processed through Keystone Management Company with emphasis being placed on Whitfield I residents. Whitfield I residents have preferential treatment because they are the residents who were displaced from Whitfield I apartments. Every effort has been made and CSS case managers continue to meet and/or make contact with residents to assist them with meeting eligibility requirements.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe sanitary and decent housing for the low and moderately low income elderly families.

Other than what has been described above, there are no currently known facts, decisions, or conditions that are expected to have a significant effect on financial position(net assets) or results of operations(revenues, expenses, and other changes).

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Barbara Hollowell, Executive Director
721 Nate Wells Drive
Benton Harbor, MI 49022

FINANCIAL STATEMENTS

BENTON HARBOR HOUSING COMMISSION

STATEMENT OF NET ASSETS

September 30, 2006

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ASSETS

Current Assets:

Cash	\$ 285,099
Accounts receivable-other	7,149
Accounts receivable-HUD	210,582
Accounts receivable-tenants	22,984
Fraud recovery	11,964
Allowance for doubtful accounts-fraud	(11,964)
Prepaid expenses	21,230
Inventories	<u>1,201</u>

Total Current Assets	<u>548,245</u>
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Capital Assets:

Land	121,807
Buildings	16,445,856
Equipment	539,178
Building improvements	244,708
Construction in progress	<u>2,145,300</u>

19,496,849

Less: accumulated depreciation	<u>(9,578,549)</u>
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Net Capital Assets	<u>9,918,300</u>
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Total Assets	<u>\$ 10,466,545</u>
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See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:	
Bankoverdraft	\$ 64,271
Accounts payable	176,177
Tenant security deposit liability	44,680
Accrued expenses	36,972
Deferred revenues	<u>14,118</u>
Total Current Liabilities	<u>336,218</u>
Noncurrent Liabilities:	
Noncurrent liabilities-other	10,902
Accrued compensated absences	<u>21,389</u>
Total Noncurrent Liabilities	<u>32,291</u>
Total Liabilities	<u>368,509</u>
Net Assets:	
Invested in capital assets	9,918,300
Unrestricted net assets	<u>179,736</u>
Total Net Assets	<u>10,098,036</u>
Total Liabilities and Net Assets	<u><u>\$ 10,466,545</u></u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSTS

Year Ended September 30, 2006

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OPERATING REVENUES:

Dwelling rent	\$ 378,115
Non-dwelling rent	<u>25,104</u>

Total operating revenues	<u>403,219</u>
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OPERATING EXPENSES:

Administration	659,072
Tenant services	2,928
Utilities	287,787
Ordinary maintenance and operation	553,046
Protective services	49,427
General expenses	115,962
Extraordinary maintenance	20,571
Housing assistance payments	643,870
Depreciation	<u>708,235</u>

Total operating expenses	<u>3,040,898</u>
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Operating income(loss)	<u>(2,637,679)</u>
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NONOPERATING REVENUES:

Investment interest income	11,426
Other income	8,023
Fraud recovery	250
Capital grants	1,775,412
Operating grants	<u>1,827,861</u>

Total nonoperating revenues	<u>3,622,972</u>
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Change in net assets	985,293
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Prior period adjustments, equity transfers and correction of errors	(9,650)
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Net assets, beginning	<u>9,122,393</u>
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Net assets, ending	<u><u>\$10,098,036</u></u>
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See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2006
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 451,806
Cash payments to other suppliers of goods and services	(1,591,889)
Cash payments to employees for services	(765,802)
Cash payments for in lieu of taxes	<u> </u>
Net cash (used) by operating activities	<u>(1,905,885)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	(3,227)
Operating grants	1,990,782
Fraud recovery	250
Other revenue	<u>8,023</u>
Net cash provided by noncapital financing activities	<u>1,995,828</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Capital grants	1,666,179
Payments for capital acquisitions	<u>(1,775,412)</u>
Net cash (used) by capital and related financing activities	<u>(109,233)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Receipts of interest and dividends	<u>11,426</u>
Net cash provided by investing activities	<u>11,426</u>

Net increase(decrease) in cash	(7,864)
Cash, beginning	<u>292,963</u>
Cash, ending	<u>\$ 285,099</u>

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 285,099
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 285,099</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(2,637,679)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	708,235
Bad debt allowance adjustment	(54,958)
Adjustments	350
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	42,058
Prepaid expenses	51,928
Inventories	(1,201)
Increase (decrease) in liabilities:	
Bankoverdraft	27,959
Accounts payable	(17,741)
Accrued wage/payroll taxes payable	(15,498)
Accrued compensated absences	128
Accounts payable-PILOT	9,898
Other current liabilities	(25,893)
Deferred revenues	<u>6,529</u>
Net cash (used) by operating activities	<u>\$(1,905,885)</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Benton Harbor Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Benton Harbor Housing Commission is a component unit of the City of Benton Harbor, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Benton Harbor on January 16, 1950, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Benton Harbor Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3028, the Housing Commission constructed, maintains and operates 270 units of subsidized housing in the City of Benton Harbor, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 128 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission. The Housing Commission receives a HAP allocation in addition to administrative fees based on the number of households it assists under its Housing Choice Voucher program. The Housing Commission also, since April 30, 2004, began administering a HOPE VI program (Revitalization of Severely Distressed Public Housing program).

Fund Financial Statements

The Housing Commission only has business-type activities, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets,

Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases(revenues) and decreases(expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Benton Harbor Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average cost method.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$300 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	3 - 10 years
Building improvements	10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows all probationary and regular full-time employees to accumulate the following compensated absences:

- * Vacation leave: Vacation leave may be accumulated to a maximum of 24 days. At the end of each benefit year, effective with the Fair Labor Standards cycle ending on or before January 15, any Housing Commission employee with accrued annual vacation leave in excess of twenty-four (24) days will have this leave forfeited. Upon separation from Benton Harbor Housing Commission service, an employee will receive payment for all accumulated vacation leave up to a maximum of 24 days.
- * Sick leave: Every permanent full-time employee in the Housing Commission's service shall be entitled to sick leave with pay of one workday for each completed month of service. Sick leave shall be cumulative without limitation.
- * Personal days: Temporary leaves of absence without pay may be granted by the Executive Director to regular employees for personal or family emergencies, for personal or family disability, for continuation of education, or for special work or experiences that will allow the Housing Commission to benefit from the experience gained or the work performed.

The amount of accumulated benefits at September 30, 2006, was \$55,002, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and savings accounts in the Low Rent, Housing Choice Voucher, and the HOPE VI programs. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent and HOPE VI accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$285,049 and the bank balance was \$290,748 of which \$290,748 was covered either by federal depository insurance or a collateral agreement. The Housing Commission also has \$25 in petty cash and \$25 in a change fund.

Investments

The Housing Commission did not have any investments as September 30, 2006:

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |

3. Mortgage Backed Securities - 25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 50
Carrying amount of deposits	285,049
Investments	<u>-0-</u>
Total	<u>\$ 285,099</u>
Cash and investments:	
Enterprise activities	\$ 290,798
Enterprise activities - deposits in transit	5,927
Enterprise activities - checks written in excess of deposits	<u>(11,626)</u>
Total	<u>\$ 285,099</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2006, the receivables were \$22,984 with \$-0- estimated as uncollectible. Bad debt expense was \$-0-.

Accounts Receivable/Payables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at September 30, 2006 were as follows:

Captial Fund Program	\$ 41,555
Housing Choice Vouchers Program	6,715
HOPE VI Program	<u>169,027</u>
	<u>\$ 217,297</u>

Amounts due to HUD represents overfunding of actual expenses for the programs financed. There were no amounts due to HUD as of September 30, 2006.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$204,556	Low Rent Program	\$105,941
Housing Choice		Capital Fund Program	41,555
Voucher Program	75,655		
HOPE VI	<u>3,992</u>	HOPE VI	<u>136,707</u>
	<u>\$284,203</u>		<u>\$284,203</u>

The low rent program transferred \$19,192 to the capital fund program during the fiscal year ended September 30, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance 09/30/05</u>	<u>Additions/ Transfers</u>	<u>Retirements/ Transfers</u>	<u>Balance 09/30/06</u>
Low Rent Program				
Land	\$ 121,807	\$	\$	\$ 121,807
Buildings	9,000,421	7,445,435		16,445,856
Furniture, equip. & machinery - dwellings	60,767			60,767
Furniture, equip. & machinery - administration	416,789	2,863		419,652
Building improvements	<u>6,581,895</u>		<u>6,581,895</u>	
	16,181,679	<u>\$7,448,298</u>	<u>\$ 6,581,895</u>	17,048,082
Less accumulated depreciation	<u>(8,830,578)</u>	<u>\$(718,146)</u>	<u>\$</u>	<u>(9,548,724)</u>
Total	<u>\$ 7,351,101</u>			<u>\$ 7,499,358</u>

	<u>Balance</u> <u>09/30/05</u>	<u>Additions/</u> <u>Transfers</u>	<u>Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/06</u>
Revitalization of Severely Distressed Public Housing Program (HOPE VI)				
Furniture, equip. & machinery - administration	\$	\$ 25,357	\$	\$ 25,357
Construction in progress	<u>419,168</u>	<u>1,219,437</u>		<u>1,638,605</u>
	419,168	<u>\$1,244,794</u>	<u>\$</u>	1,663,962
Less accumulated depreciation		<u>\$ (342)</u>	<u>\$</u>	<u>(342)</u>
Total	<u>\$ 419,168</u>			<u>\$ 1,663,620</u>
Capital Fund Program				
Furniture, equip. & machinery - dwellings	\$ 9,480	\$ 13,833	\$	\$ 23,313
Furniture, equip. & machinery - administration	2,863	7,226		10,089
Building improvements	1,082,188		837,480	244,708
Construction in progress	<u>26,060</u>	<u>480,635</u>		<u>506,695</u>
	1,120,591	<u>\$ 501,694</u>	<u>\$ 837,480</u>	784,805
Less accumulated depreciation	<u>(39,736)</u>	<u>\$ (24,232)</u>	<u>\$ 34,485</u>	<u>(29,483)</u>
Total	<u>\$ 1,080,855</u>			<u>\$ 755,322</u>
Combined Totals				<u>\$ 9,918,300</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets in the enterprise fund type for the year ended September 30, 2006, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 8,851,124
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>1,067,176</u>
Balance, ending	<u>\$ 9,918,300</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Benton Harbor Housing Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65), employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Checks voided from prior years	\$ 350
Check due to HUD	(10,000)
Equity transfer: 2001 CFP equity to PH	315,363
Equity transfer: 2002 CFP equity to PH	424,356
Equity transfer: 2003 CFP equity to PH	92,200
	<u>\$ 822,269</u>

Public Housing Capital Fund Program

Equity Transfer:	2001 close out CFP equity to PH	\$(315,363)
Equity Transfer:	2002 close out CFP equity to PH	(424,356)
Equity Transfer:	2003 close out CFP equity to PH	<u>(92,200)</u>
		<u>\$(831,919)</u>

E. Reclassifications

Certain prior years' balances have been reclassified to conform to the current year's presentation.

F. Combining Financial Data Schedules

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>HOPE VI Program</u>
Condensed Statement of Net Assets				
Current assets	\$ 252,411	\$ 41,555	\$365,463	\$ 173,019
Capital assets	<u>7,499,358</u>	<u>755,322</u>		<u>1,663,620</u>
Total assets	<u>\$7,751,769</u>	<u>\$ 796,877</u>	<u>\$365,463</u>	<u>\$1,836,639</u>
Current liabilities	\$ 401,847	\$ 41,555	\$ 4,000	\$ 173,019
Noncurrent liabilities	<u>32,291</u>			
Total liabilities	<u>434,138</u>	<u>41,555</u>	<u>4,000</u>	<u>173,019</u>
Net assets:				
Invested in capital assets	7,499,358	755,322		1,663,620
Unrestricted net assets	<u>(181,727)</u>		<u>361,463</u>	
Total net assets	<u>7,317,631</u>	<u>755,322</u>	<u>361,463</u>	<u>1,663,620</u>
Total liabilities & net assets	<u>\$7,751,769</u>	<u>\$ 796,877</u>	<u>\$365,463</u>	<u>\$1,836,639</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>HOPE VI Program</u>
Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets				
Dwelling and nondwelling rents	\$ 403,219	\$	\$	\$
Depreciation	(683,661)	(24,232)		(342)
Other operating expenses	<u>(1,494,994)</u>	<u>(121,081)</u>	<u>(716,588)</u>	
Operating(loss)	(1,775,436)	(145,313)	(716,588)	(342)
Nonoperating revenues:				
Investment earnings	2,768		8,658	
Other income	6,546		1,477	
Fraud recovery			250	
Capital grants		530,618		1,244,794
Operating grants	879,092	101,889	846,880	
Operating transfers	<u>(19,192)</u>	<u>19,192</u>		
Change in net assets	(906,222)	506,386	140,677	1,244,452
Prior period adjustments & equity transfers	822,269	(831,919)		
Beginning net assets	<u>7,401,584</u>	<u>1,080,855</u>	<u>220,786</u>	<u>419,168</u>
Ending net assets	<u>\$7,317,631</u>	<u>\$ 755,322</u>	<u>\$361,463</u>	<u>\$1,663,620</u>

**Condensed Statement
of Cash Flows**

Net cash provided (used) by:				
Operating activities	\$(1,067,735)	\$(121,081)	\$(717,069)	\$
Noncapital financing activities	989,512	121,081	777,083	108,152
Capital and related financing activities				(109,233)
Investing activities	<u>2,768</u>		<u>8,658</u>	
Net increase(decrease)	(75,455)		68,672	(1,081)
Beginning cash and cash equivalents	<u>77,461</u>		<u>214,421</u>	<u>1,081</u>
Ending cash and cash equivalents	<u>\$ 2,006</u>	<u>\$</u>	<u>\$ 283,093</u>	<u>\$</u>

SUPPLEMENTARY INFORMATION

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 2,006	\$
Accounts receivable-PHA projects		
Accounts receivable-HUD		41,555
Accounts receivable-miscellaneous	434	
Accounts receivable-tenants	22,984	
Fraud recovery	11,964	
Allowance for doubtful accounts- fraud	(11,964)	
Prepaid expenses	21,230	
Inventories	1,201	
Due from other programs	<u>204,556</u>	
Total current assets	<u>252,411</u>	<u>41,555</u>
Capital Assets:		
Land	121,807	
Buildings	16,445,856	
Equipment	480,419	33,402
Building improvements		244,708
Construction in progress		<u>506,695</u>
	17,048,082	784,805
Less accumulated depreciation	<u>(9,548,724)</u>	<u>(29,483)</u>
Net capital assets	<u>7,499,358</u>	<u>755,322</u>
Total Assets	<u>\$ 7,751,769</u>	<u>\$ 796,877</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 283,093	\$	\$ 285,099
6,715		6,715
	169,027	210,582
		434
		22,984
		11,964
		(11,964)
		21,230
		1,201
<u>75,655</u>	<u>3,992</u>	<u>284,203</u>
<u>365,463</u>	<u>173,019</u>	<u>832,448</u>
		121,807
		16,445,856
	25,357	539,178
		244,708
	<u>1,638,605</u>	<u>2,145,300</u>
	1,663,962	19,496,849
	(342)	(9,578,549)
	<u>1,663,620</u>	<u>9,918,300</u>
<u>\$ 365,463</u>	<u>\$ 1,836,639</u>	<u>\$ 10,750,748</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Bankoverdraft	\$ 27,959	\$
Accounts payable	172,177	
Tenant security deposit liability	44,680	
Accrued expenses	36,972	
Deferred revenues	14,118	
Due to other programs	<u>105,941</u>	<u>41,555</u>
Total current liabilities	<u>401,847</u>	<u>41,555</u>
Noncurrent liabilities:		
Noncurrent liabilities-other	10,902	
Accrued compensated absences	<u>21,389</u>	
Total noncurrent liabilities	<u>32,291</u>	
Total liabilities	<u>434,138</u>	<u>41,555</u>
Net Assets:		
Invested in capital assets	7,499,358	755,322
Unrestricted net assets	<u>(181,727)</u>	
Total net assets	<u>7,317,631</u>	<u>755,322</u>
Total Liabilities and Net Assets	<u>\$7,751,769</u>	<u>\$ 796,877</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 4,000	\$ 36,312	\$ 64,271
		176,177
		44,680
		36,972
		14,118
	<u>136,707</u>	<u>284,203</u>
<u>4,000</u>	<u>173,019</u>	<u>620,421</u>
		10,902
		<u>21,389</u>
		<u>32,291</u>
<u>4,000</u>	<u>173,019</u>	<u>652,712</u>
<u>361,463</u>	<u>1,663,620</u>	<u>9,918,300</u>
		<u>179,736</u>
<u>361,463</u>	<u>1,663,620</u>	<u>10,098,036</u>
<u>\$ 365,463</u>	<u>\$ 1,836,639</u>	<u>\$ 10,750,748</u>

BENTON HARBOR HOUSING COMMISSION
**COMBINING STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN FUND NET ASSETS**
 Year Ended September 30, 2006

=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 378,115	\$
Nondwelling rent	<u>25,104</u>	<u> </u>
Total operating revenues	<u>403,219</u>	<u> </u>
OPERATING EXPENSES:		
Administration	513,466	74,000
Tenant services	2,928	
Utilities	287,787	
Ordinary maintenance and operation	546,296	6,750
Protective services	9,096	40,331
General expenses	114,850	
Extraordinary maintenance	20,571	
Housing assistance payments		
Depreciation	<u>683,661</u>	<u>24,232</u>
Total operating expenses	<u>2,178,655</u>	<u>145,313</u>
Operating income(loss)	<u>(1,775,436)</u>	<u>(145,313)</u>
NONOPERATING REVENUES:		
Operating transfers in (out)	(19,192)	19,192
Investment interest income	2,768	
Other income	6,546	
Fraud recovery		
Capital grants		530,618
Operating grants	<u>879,092</u>	<u>101,889</u>
Total nonoperating revenues	<u>869,214</u>	<u>651,699</u>
Change in net assets	(906,222)	506,386
Prior period adjustments, equity transfers and correction of errors	822,269	(831,919)
Net assets, beginning	<u>7,401,584</u>	<u>1,080,855</u>
Net assets, ending	<u>\$7,317,631</u>	<u>\$ 755,322</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$
		378,115
		<u>25,104</u>
		403,219
71,606		659,072
		2,928
		287,787
		553,046
		49,427
1,112		115,962
		20,571
643,870		643,870
	342	<u>708,235</u>
<u>716,588</u>	<u>342</u>	<u>3,040,898</u>
(716,588)	(342)	(2,637,679)
8,658		11,426
1,477		8,023
250		250
	1,244,794	1,775,412
<u>846,880</u>		<u>1,827,861</u>
<u>857,265</u>	<u>1,244,794</u>	<u>3,622,972</u>
140,677	1,244,452	985,293
		(9,650)
<u>220,786</u>	<u>419,168</u>	<u>9,122,393</u>
<u>\$ 361,463</u>	<u>\$ 1,663,620</u>	<u>\$ 10,098,036</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2006
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 451,806	\$
Cash payments to other suppliers of goods and services	(873,372)	(57,081)
Cash payments to employees for services	(646,169)	(64,000)
Cash payments for in lieu of taxes	<u> </u>	<u> </u>
Net cash (used) by operating activities	<u>(1,067,735)</u>	<u>(121,081)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	(3,227)	
Due from/to other funds	57,848	(100,812)
Operating transfers in (out)	(19,192)	19,192
Operating grants	947,537	202,701
Fraud recovery		
Other revenue	<u>6,546</u>	<u> </u>
Net cash provided by noncapital financing activities	<u>989,512</u>	<u>121,081</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		530,618
Payments for capital acquisitions	<u> </u>	<u>(530,618)</u>
Net cash (used) by capital and related financing activities	<u> </u>	<u> </u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts of interest and dividends	<u>2,768</u>	<u> </u>
Net cash provided by investing activities	<u>2,768</u>	<u> </u>
Net increase(decrease) in cash	(75,455)	
Cash, beginning	<u>77,461</u>	<u> </u>
Cash, ending	<u><u>\$ 2,006</u></u>	<u><u>\$</u></u>

Housing Choice Vouchers 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
\$	\$	\$ 451,806
(661,436)		(1,591,889)
(55,633)		(765,802)
<u>(717,069)</u>	<u></u>	<u>(1,905,885)</u>
(65,188)	108,152	(3,227)
840,544		1,990,782
250		250
<u>1,477</u>	<u></u>	<u>8,023</u>
<u>777,083</u>	<u>108,152</u>	<u>1,995,828</u>
	1,135,561	1,666,179
<u></u>	<u>(1,244,794)</u>	<u>(1,775,412)</u>
<u></u>	<u>(109,233)</u>	<u>(109,233)</u>
<u>8,658</u>	<u></u>	<u>11,426</u>
<u>8,658</u>	<u></u>	<u>11,426</u>
68,672	(1,081)	(7,864)
<u>214,421</u>	<u>1,081</u>	<u>292,963</u>
<u>\$ 283,093</u>	<u>\$</u>	<u>\$ 285,099</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET:		
Cash	\$ 2,006	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 2,006</u>	<u>\$</u>
SCHEDULE RECONCILING OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income(loss)	\$(1,775,436)	\$(145,313)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	683,661	24,232
Bad debt allowance adjustment	(54,958)	
Voided checks	350	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	42,058	
Prepaid expenses	51,928	
Inventories	(1,201)	
Increase (decrease) in liabilities:		
Bankoverdraft	27,959	
Accounts payable	(17,260)	
Accrued wage/payroll taxes payable	(15,498)	
Accrued compensated absences	128	
Accounts payable-PILOT	9,898	
Other current liabilities	(25,893)	
Deferred revenues	<u>6,529</u>	
Net cash (used) by operating activities	<u><u>\$(1,067,735)</u></u>	<u><u>\$(121,081)</u></u>

Housing Choice Vouchers 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
\$ 283,093	\$	\$ 285,099
<u>\$ 283,093</u>	<u>\$</u>	<u>\$ 285,099</u>
\$ (716,588)	\$ (342)	\$ (2,637,679)
	342	708,235 (54,958) 350
		42,058 51,928 (1,201)
(481)		27,959 (17,741)
		(15,498) 128 9,898 (25,893)
<u></u>	<u></u>	<u>6,529</u>
<u>\$ (717,069)</u>	<u>\$</u>	<u>\$ (1,905,885)</u>

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 879,092
	<u>Public and Indian Housing Major - Direct Program</u>		
2006	Capital Fund Program	14.872	632,507
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	846,880
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	<u>1,244,794</u>
	Total		<u>\$3,603,273</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2006
=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 2,006	\$
100	Total cash	<u>2,006</u>	<u></u>
	Receivables:		
121	A/R-PHA projects		
122	A/R-HUD other projects		41,555
125	A/R-miscellaneous	434	
126	A/R-tenants-dwelling rents	22,984	
128	Fraud recovery	11,964	
128.1	Allowance for doubtful accounts - fraud	(11,964)	<u></u>
120	Total receivables, net of allowance for doubtful accounts	<u>23,418</u>	<u>41,555</u>
	Other Current Assets:		
142	Prepaid expenses and other assets	21,230	
143	Inventories	1,201	
144	Interprogram due from	<u>204,556</u>	<u></u>
	Total other current assets	<u>226,987</u>	<u></u>
150	Total current assets	<u>252,411</u>	<u>41,555</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	121,807	
162	Buildings	16,445,856	
163	Furn, equip & mach-dwellings	60,767	23,313
164	Furn, equip & mach-admin.	419,652	10,089
165	Building improvements		244,708
166	Accumulated depreciation	(9,548,724)	(29,483)
167	Construction in progress	<u></u>	<u>506,695</u>
160	Total fixed assets, net of accumulated depreciation	<u>7,499,358</u>	<u>755,322</u>
180	Total noncurrent assets	<u>7,499,358</u>	<u>755,322</u>
190	Total Assets	<u>\$ 7,751,769</u>	<u>\$ 796,877</u>

Housing Choice Vouchers 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
\$ 283,093	\$	\$ 285,099
283,093		285,099
6,715	169,027	6,715 210,582 434 22,984 11,964
		(11,964)
6,715	169,027	240,715
75,655	3,992	21,230 1,201 284,203
75,655	3,992	306,634
365,463	173,019	832,448
		121,807 16,445,856 84,080 455,098 244,708
	(342)	(9,578,549)
	1,638,605	2,145,300
	1,663,620	9,918,300
	1,663,620	9,918,300
\$ 365,463	\$ 1,836,639	\$ 10,750,748

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
311	Bankoverdraft	\$ 27,959	\$
312	Accounts payable<=90 days	77,298	
321	Accrued wage/payroll taxes payable	3,359	
322	Accrued compensated absences	33,613	
333	Accounts payable-other government	94,879	
341	Tenant security deposits	44,680	
342	Deferred revenues	14,118	
347	Interprogram due to	<u>105,941</u>	<u>41,555</u>
310	Total current liabilities	<u>401,847</u>	<u>41,555</u>
	Noncurrent Liabilities:		
353	Noncurrent liabilities-other	10,902	
354	Accrued compensated absences	<u>21,389</u>	
350	Total noncurrent liabilities	<u>32,291</u>	
300	Total liabilities	<u>434,138</u>	<u>41,555</u>
	Net Assets:		
508.1	Invested in capital assets	<u>7,499,358</u>	<u>755,322</u>
508	Total invested in capital assets	7,499,358	755,322
512.1	Unrestricted net assets	<u>(181,727)</u>	
513	Total Net Assets	<u>7,317,631</u>	<u>755,322</u>
600	Total Liabilities and Net Assets	<u>\$ 7,751,769</u>	<u>\$ 796,877</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 4,000	\$ 36,312	\$ 64,271
		81,298
		3,359
		33,613
		94,879
		44,680
		14,118
	136,707	284,203
<u>4,000</u>	<u>173,019</u>	<u>620,421</u>
		10,902
		21,389
		32,291
<u>4,000</u>	<u>173,019</u>	<u>652,712</u>
	<u>1,663,620</u>	<u>9,918,300</u>
	1,663,620	9,918,300
<u>361,463</u>		<u>179,736</u>
<u>361,463</u>	<u>1,663,620</u>	<u>10,098,036</u>
<u>\$ 365,463</u>	<u>\$ 1,836,639</u>	<u>\$ 10,750,748</u>

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006

		=====	
FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 378,115	\$
704	Tenant revenue-other	<u>25,104</u>	
705	Total tenant revenue	403,219	
706	HUD PHA grants	879,092	101,889
706.1	Capital grants		530,618
711	Investment income-unrestricted	2,768	
714	Fraud recovery		
715	Other revenue	<u>6,546</u>	
700	Total revenue	<u>1,291,625</u>	<u>632,507</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	243,542	64,000
912	Auditing fees	16,542	
914	Compensated absences	129	
915	Employee benefit contributions		
	-administration	106,959	
916	Other operating-administrative	146,294	10,000
	Tenant Services:		
924	Tenant services-other	2,928	
	Utilities:		
931	Water	57,581	
932	Electricity	100,920	
933	Gas	129,286	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	206,965	
942	Ordinary maint & oper-materials & other	64,363	
943	Ordinary maint & oper-contract costs	201,635	6,750
945	Employee benefit contributions	73,333	
	Protective services:		
952	Protective services-other contract costs	9,096	40,331
	General expenses:		
961	Insurance premiums	110,217	
962	Other general expenses		
963	Payments in lieu of taxes	9,898	
964	Bad debt-tenant rents	<u>(5,265)</u>	
969	Total operating expenses	<u>1,474,423</u>	<u>121,081</u>

Housing Choice Vouchers 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
\$	\$	\$ 378,115
		25,104
		403,219
846,880		1,827,861
	1,244,794	1,775,412
8,658		11,426
250		250
1,477		8,023
<u>857,265</u>	<u>1,244,794</u>	<u>4,026,191</u>
35,923		343,465
4,000		20,542
		129
19,710		126,669
11,973		168,267
		2,928
		57,581
		100,920
		129,286
		206,965
		64,363
		208,385
		73,333
		49,427
1,112		110,217
		1,112
		9,898
		(5,265)
<u>72,718</u>		<u>1,668,222</u>

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2006

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(<u>182,798</u>)	<u>511,426</u>
	Expenses continued:		
	Other expenses:		
971	Extraordinary maintenance	20,571	
973	Housing assistance payments		
974	Depreciation expense	<u>683,661</u>	<u>24,232</u>
	Total other expenses	<u>704,232</u>	<u>24,232</u>
900	Total expenses	<u>2,178,655</u>	<u>145,313</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(887,030)	487,194
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	(<u>19,192</u>)	<u>19,192</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	(906,222)	506,386
1103	Beginning Net Assets	7,401,584	1,080,855
1104	Prior period adjustments, equity transfers and correction of errors	<u>822,269</u>	(<u>831,919</u>)
	Ending Net Assets	<u>\$ 7,317,631</u>	<u>\$ 755,322</u>

Housing Choice Vouchers 14.871	(HOPE VI) Revitalization of Severely Distressed Public Housing 14.866	Totals
<u>784,547</u>	<u>1,244,794</u>	<u>2,357,969</u>
643,870		20,571
	342	643,870
		<u>708,235</u>
<u>643,870</u>	<u>342</u>	<u>1,372,676</u>
<u>716,588</u>	<u>342</u>	<u>3,040,898</u>
140,677	1,244,452	985,293
<u>140,677</u>	<u>1,244,452</u>	<u>985,293</u>
220,786	419,168	9,122,393
		(9,650)
<u>\$ 361,463</u>	<u>\$ 1,663,620</u>	<u>\$ 10,098,036</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

I have audited the financial statements of the business-type activities of the Benton Harbor Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated March 9, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Benton Harbor Housing Commission
Page Two

Compliance and Other Matters (continued)

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Leland, CPA

March 9, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

Compliance

I have audited the compliance of the Benton Harbor Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Benton Harbor Housing Commission
Page Two

Compliance (continued)

As described in items 06-1 thru 06-15, in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility and special tests and provisions applicable to the Housing Choice Voucher Program, the Low Rent Public Housing Program, and the HOPE VI Program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sandy E. Vandell, CPA, PC

March 9, 2007

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2006
=====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness (Finding 06-16) Yes
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Qualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 Yes
4. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$ 879,092	Yes	E,N	N/A	04-1
					06-12 to	06-13
14.872	Capital Fund Program	632,507	Yes	O	N/A	04-01
14.871	Housing Choice Vouchers	846,880	Yes	E,N	N/A	04-1
					06-1 to	06-8
						06-15
14.866	HOPE VI	<u>1,244,794</u>	Yes	E,N	N/A	06-14
Total		<u>\$3,603,273</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

B. Financial Statement Findings

Low Rent Public Housing Program - CFDA No. 14.850

06-16 Year Ended September 30, 2006

Tenant Accounts Receivable is \$22,984 as of September 30, 2006. This represents 7.3% of the average monthly tenant rents collected during the fiscal year.

While the percentage is less than 10%, the amount still represents an average of \$83 per tenant, which is still a high amount. We recommend that the Housing Commission continue to follow its own collection policies to reduce this number in the future.

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Housing Choice Voucher Program - CFDA No. 14.871

06-1 Year Ended September 30, 2006

Condition and Criteria: Documentation to determine **eligibility** is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the Voucher without the proper documentation available to review.

Cause: The former staff in charge of this program did not perform due diligence in their duties.

Population and Items Tested: We started with the 9th tenant file and tested every 18th one after that from an Ad-hoc tenant report provided by the Housing Commission. We selected seven(7) tenant files from a population of 126 tenant files to choose from.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	3
b. Privacy Act Notice	7
c. Proper verification of Income	3
d. Proper verification of Expenses	2
e. Proper verification of Assets	2
f. Inspection report	5
g. Lease	0
h. Application	1
i. Copy of Photo I.D.	3
j. Copy of Proof of Social Security Number	1
k. Copy of Birth Certificate	3
l. Annual Review	3
m. Worksheet for HUD-50058	3
n. Notice of Rent Adjustment	3
o. Criminal Background Check	5
p. Declaration of 214 Status	5
q. Lead Based Paint Disclosure	2
r. Request for Tenancy Approval	1
s. Voucher	1
t. HAP Contract	1
u. HAP Tenancy Addendum	0
v. Rent Reasonableness Test	5
w. Inspection-like threatening corrections made <24 hours	4

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
 September 30, 2006

C. Federal Award Findings and Questioned Costs (Continued)

Housing Choice Voucher Program - CFDA No. 14.871

06-1 Year Ended September 30, 2006 (continued)

Population and Items Tested (continued):

x. Inspection-corrections made <30 days or by granted extensions	5
y. Proper action taken if w or x violated	5
z. Family Composition Review	<u>6</u>
	<u>79</u>

Out of a possible 182, there were 79 exceptions from this test.
 This represents a 43.41% exception rate.

Auditor's Recommendation: It is recommended that the Housing Commission immediately begin correcting the lack of documentation listed above for all tenant files.

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	V-001-90-34-04	x			x	x			x	
2	V-99-16-02					x	x		x	
3	V-90-06-03	x				x			x	
4	V-87-11-04	x		x	x	x			x	
5	V-90-42-02	x		x	x	x			x	
6	P-2371					x			x	
7	V-99-11-03	<u>x</u>				<u>x</u>			<u>x</u>	
Number of Hits		<u>5</u>	<u>0</u>	<u>2</u>	<u>3</u>	<u>7</u>	<u>1</u>	<u>0</u>	<u>7</u>	<u>0</u>
% of Hits		<u>71%</u>	<u>0%</u>	<u>29%</u>	<u>43%</u>	<u>100%</u>	<u>14%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or it was in the tenant file.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset verification not conducted or incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (Continued)**

Housing Choice Voucher Program - CFDA No. 14.871

06-2 Year Ended September 30, 2006

Condition and Criteria: Required **documentation** was either missing in the files, or was incorrectly completed.

Effect: Ineligible tenants may be in the program, tenants may not be properly informed of their rights, tenants may not be informed of changes in the rent, and/or tenants safety could be at risk.

Cause: The former staff in charge of this program did not perform due diligence in the performance of their duty.

Population and Items Tested: 7 tenant files out of a total of 126 were tested. Of the 7 tenant files tested, 7 did not have all of the required documentation. This represents an exception rate of 100%.

Auditor's Recommendation: It is recommended that the Housing Commission obtain missing documentation or correct incorrect or incomplete documentation in all tenant files where possible. In addition, it is recommended that greater care be taken in the future to obtain correctly completed required documentation.

Housing Choice Voucher Program - CFDA No.14.871

06-3 Year Ended September 30, 2006

Condition and Criteria: There was not sufficient evidence in the files to show that all of the tenant units were **inspected** and/or that deficiencies were corrected and the unit received a "PASS" rating.

Effect: Tenants may be in substandard units.

Cause: The former Housing Commission staff did not insure that inspections were done or have evidence in the file to show that they were done and deficiencies corrected.

Population and Items Tested: Out of 126 tenant files, 7 were tested and of these 5 did not have inspections done or else did not have evidence available that they were done or that deficiencies were corrected on a timely basis.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (Continued)**

Housing Choice Voucher Program - CFDA No. 14.871

06-3 Year Ended September 30, 2006 (continued)

Auditor's Recommendation: It is recommended that all units be inspected in the future, deficiencies corrected, and evidence of both available for review within the proper time frame.

Housing Choice Voucher Program - CFDA No. 14.871

06-4 Year Ended September 30, 2006

Condition and Criteria: Required **annual reviews** were not always performed.

Effect: Updated tenant information is not being used to determine proper rent.

Cause: The former staff member in charge of this program did not perform due diligence in their duties.

Population and Items Tested: Out of 126 tenant files, 7 were tested and of these, 3 did not have proper evidence that an annual review was done.

Auditor's Recommendation: It is recommended that the current staff in charge of this program, take care to insure that annual reviews are done each year on a timely basis.

Housing Choice Voucher Program - CFDA No. 14.871

06-5 Year Ended September 30, 2006

Condition and Criteria: There is not evidence in some of the tenant files that a **criminal background check** was performed, or the criminal background check was in the file, when they should not normally be kept in the files.

Effect: Ineligible tenants may be in the program. These tenants could cause problems for other tenants or for the Housing Commission to incur additional costs.

Cause: The former staff in charge of this program either did not perform criminal background checks for all tenants, or did not provide evidence in the files that they were done. In two cases, the actual report was in the file.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (continued)**

Housing Choice Voucher Program - CFDA No. 14.871

06-5 Year Ended September 30, 2006 (continued)

Population and Items Tested: 7 tenant files out of a population of 126 tenant files were tested. Of the 7 files tested, 2 were older files so they were not listed as exceptions, 3 did not have evidence of a background check, and 2 reports were in the file. This represents an exception rate of 71.43%.

Auditor's Recommendation: It is recommended that a criminal background check be performed on all applicants before they are admitted to the program. A new form or additional entries on current forms should be used to document the files. The criminal background check itself may not be kept in the file unless an appeal or hearing is still pending for that applicant. In addition, the Housing Commission may want to perform criminal background checks on all existing tenants. This could protect other tenants as well as save the Housing Commission costs and problems in the future.

Housing Choice Voucher Program - CFDA No. 14.871

06-6 Year Ended September 30, 2006

Condition and Criteria: **Rent Reasonableness tests** were not performed in all instances where they were required.

Effect: Tenants may not be paying fair rents when compared to similar unassisted units.

Cause: The former staff in charge of this program did not perform due diligence in their duties.

Population and Items Tested: Of the 7 files tested out of a population of 126, 4 were missing the rent reasonable test where required and one was in the file but it was not signed, dated or certified. This represents an exception rate of 71.43%.

Auditor's Recommendation: It is recommended that the Housing Commission take care to do a rent reasonable test when required in the future. It should be noted that 5 new tenants to the program were also tested to see if a rent reasonable test was done and all 5 of these tenants tested had a rent reasonable test done.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (Continued)**

Housing Choice Voucher Program - CFDA No. 14.871

06-7 Year Ended September 30, 2006

Condition and Criteria: There is not sufficient evidence to substantiate that new tenants were selected correctly from the **waiting list**.

Effect: Applicants on the waiting list may have been denied the opportunity to become tenants in the voucher program on a timely basis.

Cause: The former/current staff in charge of the waiting list did not select the tenants correctly and/or did not maintain documentation that they were selected in the correct order.

Population and Items Tested: It was not possible to test any new tenants to the program due to the lack of documentation available for review.

Auditor's Recommendation: It is understood from interviews conducted at the Housing Commission that a procedure is now in place to properly document the selection of tenants from the waiting list. It is recommended that proper documentation be continued for all tenants selected from the waiting list.

Housing Choice Voucher Program - CFDA No. 14.871

06-8 Year Ended September 30, 2006

Condition and Criteria: **Quality Control Inspections** were conducted late.

Effect: Conditions could have changed in the units prior to the quality control reinspection, making it difficult to determine if the original inspection was done correctly.

Cause: New staff was hired to do the Quality Control reinspections, but not soon enough for the reinspections to be timely.

Auditor's Recommendations: Based on interviews with staff, Quality Control Reinspections will be done in sufficient numbers. The Housing Commission plans to have Quality Control Reinspections done within 2 days of the original inspection which will alleviate this problem.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs (Continued)

Low Rent Public Housing Program - CFDA No. 14.850

06-9 Year Ended September 30, 2006

Condition and Criteria: Documentation to determine **eligibility** is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause: The staff in charge of this program did not obtain all of the documentation recommended for the tenant files, or did not make sure they were completed correctly.

Population and Items Tested: We selected 10 tenant files to review using the haphazard method. The 10 tenant files were selected from a population of approximately 276 units.

We looked for the following required documentation in the files:

	<u># of Exceptions</u>
a. HUD Form 50058	0
b. Privacy Act Notice	5
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	0
f. Inspection Report	4
g. Lease	4
h. Application	5
i. Copy of Photo I.D.	6
j. Copy of Social Security Number Verification	7
k. Copy of Birth Certificate	8
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	8
p. Declaration of 214 Status	3
q. Lead Based Paint Disclosure	1
r. Family Composition Review	0
	<u>51</u>

Out of a possible 180, there were 51 exceptions from this test. This represents an exception rate of 28.33%.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
 September 30, 2006

C. Federal Award Findings and Questioned Costs (Continued)

Low Rent Public Housing Program - CFDA No. 14.850

06-9 Year Ended September 30, 2006 (continued)

Auditor's Recommendation: It is recommended that the Housing Commission staff immediately begin to obtain the recommended documentation listed above for all tenant files. Care should be taken to insure that all forms are completed in their entirety and correctly.

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	P-003-0218-04	x								
2	P-003-0245-02						x		x	
3	P-003-0277-07	x					x		x	
4	P-005-040-03	x				x	x		x	
5	P-005-0438-02					x	x		x	
6	P-007-0716-04	x					x		x	
7	P-002-0135-13	x				x			x	
8	P-002-0170-11	x					x		x	
9	P-002-0121-16	x				x			x	
10	P-002-0111-12	x				x	x		x	
Number of Hits		<u>8</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5</u>	<u>7</u>	<u>0</u>	<u>9</u>	<u>0</u>
% of Hits		<u>80%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>50%</u>	<u>70%</u>	<u>0%</u>	<u>90%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or that it was in the tenant file.
2. Check for eviction from federal housing not conducted.
3. Proper income/expense/asset verification not conducted or incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in the file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (continued)**

Low Rent Public Housing Program - CFDA No. 14.850

06-10 Year Ended September 30, 2006

Condition and Criteria: There was not sufficient evidence in the files, or available outside of the files to show that all of the units of the tenants were **inspected** or that deficiencies were corrected.

Effect: Tenants may be in substandard units.

Cause: The Housing Commission staff did not insure that inspections were done or have evidence in the file or otherwise available to show they were done and deficiencies corrected.

Population and Items Tested: Out of approximately 276 tenants, 10 were tested and of these 4 did not have inspections done, or else did not have evidence available that they were done or deficiencies corrected.

Auditor's Recommendation: It is believed based on interviews that the inspections were probably done, but the evidence that they were done was not available. It is recommended that all units be inspected in the future, deficiencies corrected, and evidence of both available for review.
each tenant and file the documentation in the tenant file.

Grantee Response: We have considered hiring a consultant to perform this test for us. In future years we plan to perform this test ourselves.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. **Federal Award Findings and Questioned Costs (continued)**

Low Rent Public Housing Program - CFDA No. 14.850

06-11 Year Ended September 30, 2006

Condition and Criteria: There is not evidence in some of the tenant files that a **criminal background** check was performed or the criminal background check was in the file.

Effect: Tenants that might not be eligible for the program may be in the program. These tenants could cause problems for the other tenants or the Housing Commission as well as cause the Housing Commission to incur additional costs.

Cause: The Housing Commission staff in charge of this program either did not perform criminal background checks for all tenants or did not provide evidence in the file that they were done. In one case, the actual report was in the file.

Population and Items Tested: 10 files out of a population of approximately 276 files were tested. Of the 10 files tested 2 were older files so they were not listed as exceptions, 7 files did not have evidence of a check, and 1 report was still in the file. This represents an exception rate of 80%.
implemented yet for any of the tenants.

Auditor's Recommendation: It is recommended that a criminal background check be performed on all applicants before they are admitted to the program. A new form or additional entries on current forms should be used to document the files. The criminal background check itself may not be kept in the file unless an appeal or hearing is still pending for that applicant. In addition, the Housing Commission may want to perform criminal background checks on all existing tenants. This could protect other tenants as well as save the Housing Commission costs and problems in the future.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs (Continued)

Low Rent Public Housing Program - CFDA No. 14.850

06-12 Year Ended September 30, 2006

Condition and Criteria: Required **documentation** is missing from the files, or it is not properly completed.

Effect: It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause: The staff in charge of this program did not obtain the required documentation for all of the tenant files tested.

Population and Items Tested: 10 tenant files from a population of approximately 276 files were tested.

Auditor's Recommendation: Copies of social security cards and Privacy Act Forms that are properly completed should be obtained for all tenants. The Privacy Act Form should be obtained for all tenants every year.

Low Rent Public Housing Program - CFDA No. 14.850

06-13 Year Ended September 30, 2006

Condition and Criteria: There is not sufficient evidence to substantiate that new tenants were selected correctly from the **waiting list**.

Effect: Applicants on the waiting list may have been denied the opportunity to become tenants in the Public Housing Program on a timely basis.

Cause: The staff in charge of the waiting list did not select the tenants correctly and/or did not maintain documentation that they were selected in the correct order.

Population and Items Tested: It was not possible to test any new tenants to the program due to the lack of documentation available for review.

Auditor's Recommendation: It is understood from interviews conducted at the Housing Commission that a procedure is now in place to properly document the selection of tenants from the waiting list. It is recommended that proper documentation be continued for all tenants selected from the waiting list.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs (Continued)

Hope VI Program - CFDA No. 14.866

06-14 Year Ended September 30, 2006

Condition and Criteria: Documentation in the files used for **tracking tenants** is incomplete or missing from the files.

Effect: It is difficult to know if the clients are receiving all of the information they should based on the documentation in the files or receiving the assistance they need.

Cause: The former/current staff did not obtain all of the documentation or it was incomplete.

Population and Items Tested: We selected 4 tenant files who were also in the Section 8 Program and 2 additional files using the haphazard method. I tested 6 tenant files out of a population of 69 files.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Hope VI Resident Home Request Form.	2
b. Self-Sufficiency Resident Needs Assessment (initial/current assessment).	0
c. Notice of Eligibility for Relocation Assistance/90 day notice.	1
d. Notice of Individual Service Plan Meeting	1
e. Section 8 Voucher Information Form	<u>2</u>
	<u>6</u>

Out of a possible 30, there were 6 exceptions from this test. This represents a 20% exception rate.

Auditor's Recommendation: It is recommended that the Housing Commission begin correcting the lack of documentation in the files where possible. It should be noted that one of the staff only had 1 exception in her 3 files tested, and it took place before she was in her position at the Housing Commission.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs (Continued)

Hope VI Program - CFDA No. 14.866

06-14 Year Ended September 30, 2006 (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1	H-001-00000-8	x				x
2	D					
3	P-001-0040-01			x		
4	H-001-000047					
5	H-001-000038					
6	C	<u>x</u>			<u>x</u>	<u>x</u>
Number of Hits		<u>2</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>2</u>
% of Hits		<u>33%</u>	<u>0%</u>	<u>17%</u>	<u>17%</u>	<u>33%</u>

Legend

1. Hope VI Resident Home Request Form is missing.
2. Self-sufficiency Resident Needs Assessment (initial/current assessment) is missing.
3. Notice of Eligibility for Relocation Assistance/90 day Notice is missing or was not signed correctly.
4. Notice of Individual Service Plan Meeting is missing.
5. Section 8 Voucher Information Form is missing.

Housing Choice Voucher Program/Hope VI Residents
- CFDA No. 14.871

06-15 Year Ended September 30, 2006

Condition and Criteria: Documentation to determine eligibility is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the voucher without the proper documentation available to review.

Cause: The former staff employee in charge of this program did not perform due diligence in their duties.

Population and Items Tested: We started with the 2nd file and chose every 9th one after that, except for the final one which was too new so the 10th file was chosen from an Ad-hoc tenant report of Hope VI - Section 8 tenants. We selected 5 files to test from a population of 48 tenant files.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

C. Federal Award Findings and Questioned Costs (Continued)

Housing Choice Voucher Program/Hope VI Residents
- CFDA No. 14.871

06-15 Year Ended September 30, 2006 (continued)

We looked at the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	3
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	1
f. Inspection Report	1
g. Lease	1
h. Application	0
i. Copy of Photo I.D.	0
j. Copy of Proof of Social Security Number	1
k. Birth Certificate	1
l. Annual Review	2
m. Worksheet for HUD-50058	2
n. Notice of Rent Adjustment	1
o. Criminal Background Check	4
p. Declaration of 214 Status	1
q. Lead Based Paint Disclosure	0
r. Request for Tenancy Lease Approval	1
s. Voucher	2
t. HAP Contract	1
u. HAP Tenancy Addendum	2
v. Rent Reasonableness Test	0
w. Inspection-Life Threatening Corrections made <24 hours	0
x. Inspection-Corrections made <30 days or by granted extension	1
y. Proper action taken if w or x violated	1
z. Family Composition Review	<u>2</u>
	<u>28</u>

Out of a possible 130, there were 28 exceptions from this test. This represents a 21.54% exception rate.

Auditor's Recommendation: It is recommended that the Housing Commission begin correcting the lack of documentation listed above for all tenant files.

BENTON HARBOR HOUSING COMMISSION
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)
 September 30, 2006
 =====

C. Federal Award Findings and Questioned Costs (Continued)

Housing Choice Voucher Program/Hope VI Residents
- CFDA No. 14.871

06-15 Year Ended September 30, 2006 (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client #</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	H-001-000008	x				x			x	
2	H-002-000020			x		x			x	
3	H-001-HV0027	x					x		x	
4	H-001-000047	x							x	
5	H-001-000038	x				x			x	
Number of Hits		<u>4</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>5</u>	<u>0</u>
% of Hits		<u>80%</u>	<u>0%</u>	<u>20%</u>	<u>0%</u>	<u>60%</u>	<u>20%</u>	<u>0%</u>	<u>100%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted, or it was in the tenant file.
2. Check for eviction from federal housing not conducted.
3. Proper Income/Expense/Asset Verification not conducted or it is incorrect.
4. Form HUD-50058 could not be located in the tenant files.
5. HUD Form 9886, Release of Information/Privacy Act Notice not in file or it was not properly completed for the fiscal year reviewed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

BENTON HARBOR HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2006

=====

- Finding 05-1: This finding is a repeat finding as 06-1.
- Finding 05-2: This finding is a repeat finding as 06-9.
- Finding 05-3: This finding is a repeat finding as 06-15.
- Finding 05-4: This finding is a repeat finding as 06-13.
- Finding 05-5: This finding is a repeat finding as 06-5.
- Finding 05-6: This finding is a repeat finding as 06-7.
- Finding 05-7: This finding is a repeat finding as 06-6.
- Finding 05-8: This finding is a repeat finding as 06-11.
- Finding 05-9: This finding is a repeat finding as 06-12.
- Finding 04-01: HUD on Site Review. There is an Memorandum of Agreement (MOA) that the Housing Commission has been working with HUD to clear up.
- Finding 04-02: Excessive Account Receivable, this is repeated as finding 06-16.

BENTON HARBOR HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 SEPTEMBER 30, 2006

=====

Electronic
 Account
Number

Account Name

Debit

Credit

LOW RENT PROGRAM

(1)

111	Cash	\$ 2,006	
311	Bankoverdraft	42,674	
114	Cash-tenant security deposits		\$ 44,680
	To reclassify to proper cash balances.		

(2)

963	PILOT	1,485	
333	Accounts payable-PILOT		1,485
	To adjust to actual liability.		

(3)

126	Accounts receivable-dwelling units	14,118	
342	Deferred revenues		14,118
	To setup rents paid in advance.		

(4)

706.1	Capital grants	879,092	
706	HUD PHA operating grants		879,092
	To reclassify.		

HOPE VI PROGRAM

(1)

111	Cash	19,874	
311	Bankoverdraft	36,311	
167	Construction in progress		56,185
	To void outstanding checks.		